



## **TBL Programs In Review**

### **Kennewick, June 16, 2004**

#### Questions, Answers & Comments

- Q1: Regarding infrastructure projects – what is the difference between “design & build” vs. “furnish & install”?
- A: We purchased steel, insulators, conductors, etc. for “design & build” projects and contractor drew against that inventory when building. Follow-up
- Q1b: Do we ever do “furnish & install” projects?
- A: Yes. We currently do this on our series capacitors.
- Q2: Schultz-Wautoma is being funded through a *taxable* capitalized lease, estimated to cost \$120 million. What was the cost/benefit of a taxable capitalized lease vs. tax-free 3<sup>rd</sup> party financing?
- A: Interest rate was very close to federal borrowing.
- Q2b: We have never been provided an answer to the taxable vs. non-taxable question. The region is interested since BPA’s costs are so important. Could it have been done more cheaply?
- A: No. While cost is a major factor in establishing financing, so are timing and other factors. For this particular transaction, it was imperative that construction not be delayed. Bonneville had (and still has) considerable concern over the political sustainability of any tax-exempt proposal. Utilizing a tax-exempt structure would have required considerably more legal analysis of tax code issues in addition to the analysis already being completed on Bonneville’s authority to enter into a lease transaction. Tax issues would have added many levels of complication involving rates and other matters that likely would have slowed down the transaction considerably. Materials were being purchased and construction scheduled, making the uncertain timing of any tax advantaged transaction a major drawback. Additionally, it was unclear if there would be significant economic savings with a tax-exempt mechanism since a third party would conceivably expect some of the savings, and the additional legal expenses would have added to the overall financing cost. In the case of utilizing Energy Northwest as a financing vehicle, we took into consideration that the markets demand an interest rate premium for Energy Northwest bonds compared to other Bonneville-backed bonds. We had discussions with other entities in the region but those possibilities were exhausted for reasons unrelated to the taxable versus tax-exempt question. All things considered, we believe that achieving an all-in cost (financing rate, cost of issuance, on-going administrative costs) of only 29 basis points over Bonneville’s comparable Treasury borrowing rate as of the date of bond issuance was a significant success.
- Q3: Will there be relief on specific flow-gates with Schultz-Wautoma?
- A: Yes – relieves N. of Hanford, makes N. of John Day available more often and should relieve I-5 corridor – should gain a couple hundred MW. Updated ATC after Schultz-Wautoma is available through ATC methodology on TBL web site.
- Q4: What were the driving reasons for constructing Schultz-Wautoma? Seems like an odd location for a project.

- A: Need to balance flows on the east/west/center of the state to maximize usage of the transmission system. Also in response to a 'twitchy' system – needed to damp the response of the system to events – hardware in the air helps.
- Q5: Six of the G20 projects are under construction – the rest are on hold. What will kick off the next project?
- A: The first six projects were reliability-driven. The next projects will be funded by generators. BPA is not going to take the business risk of building a project based on speculation that a generator will site there.
- Q6: Regarding funding of generation projects – BPA needs to facilitate small projects that don't have funds to build transmission – can we do something with non-firm or redispatch to facilitate some projects without building (such as conditional firm).
- A: We agree, but there are other issues. Some wind developers have to specify firm transmission as a condition of development and obtaining financing. We soon will be sending out a solicitation for interest in the John Day-McNary project – can we aggregate projects and put a package together to fund the project up-front.
- Q7: Regarding ATC, a transaction from point A to point B affects flowgates. One direction is ok because there is no impact on the system, but the other direction is denied because of an impact on a different path? Can you clarify?
- A: Our ATC technical staff will be asked to respond to this question.
- Q8: How does Grid West fit into the plan?
- A: We have not assumed that Grid West will be operational during this rate period (06-07). There is no impact on FTE except should Grid West become feasible.
- Q9: Regarding the Strategic Plan, what is the plan to recombine PBL and TBL?
- A: You may hear "One BPA" used – because of SOC, we cannot completely recombine. Looking for areas where we can gain efficiencies – One AE, one bill....others. When we separated we took a different approach than a utility with distribution – they looked at native load and split off Power Marketing. We didn't do that – we kept Power Marketing with the generation. Can we go back and revisit?
- Q10: Regarding BPA Strategic Focus, some of words are not descriptive. What is the definition of 'high' reliability...does this mean that reliability will improve or that it will stay the same? Similarly,...'low' rates. Does this mean they will increase or decrease or stay the same? What is 'accountability' to the region and to the customers? Are we accountable only if they take us to court? What do these terms mean?
- A: We have not drawn a direct correlation between dollars invested and the level of reliability. We don't have that kind of functional relationship. Will try to define availability at an adequacy workshop in September.
- Q10b: Is "high reliability" better than it is today?
- A: We need to make optimal investments to maintain reliability – Asset Management will help. When we make investments in the system, we will maintain reliability. We try to keep SAIDI/SAIFI within certain bounds. We could use help on adequacy. We can always make the system more reliable by reducing ATC. How adequate is 'adequate enough'? Asking for help from customers in defining this, again, reference September symposium on adequacy. Regarding 'low' rates...how do we ensure adequacy, reliability, etc. while maintaining low rates? There is a tension between marketing capacity to gain income and operating conservatively for reliability. Nationally there are no standards on reporting reliability. Regarding Asset

Management, this will force us to define what we want on reliability. We want to work with customers to define the bounds on reliability, etc. You tell us. If customers are happy with the current level of reliability, then our focus should not be on building.

Q11: Regarding the Regional Planning Committee – were we looking for input?

A: Yes, to gain a better understanding of how a proposed solution would perform under a variety of conditions...we hope that if there is an alternative, it will be identified.

Q12: What might a smaller project be for West of McNary?

A: Our planning department is looking into this; however, we don't want to build smaller if in a couple of years we would need to build bigger.

Q13: Have we ever looked at contracting out maintenance?

A: Yes – the heavy workload coming up for wood-pole replacement will be contracted out.

Q14: On the 125kV delivery breakers, if BPA would dispose of them then BPA would not need to replace them....reduce sale price and customer would maybe buy. (This related to sale of delivery facilities).

A: Thank you for your comment.

Q15: Are our low interest rates locked in?

A: We have a small percentage with variable interest, the rest is fixed.

Q16: Have we done an Income Statement for 06/07?

A: No revenues have been included. Will be distributed during the Rate Case...first meeting is July 15<sup>th</sup>.

Q17: Regarding cost of line patrols, can some of this cost be charged to Homeland Security?

A: We have had the debate...do we want to go there? Need to be sensitive to intrusion on BPA of taxpayer funds – need to keep this up to keep the NE-MW coalition away. But, we are looking at alternative devices for surveillance...drones are less than \$30k each...run by GPS...

Q18: Customers are doing budgets for CY 2005 – need to know ball-park rate increase. What should they put in?

A: No answer yet...we kind of know the expenses but don't know yet how much Transmission sales are out there for 2006/2007. John Day-McNary will help, but if that project does not go, then not much sales will be done above what we have today. First estimate mid-July/early August.

Q19: How much are we looking for to build McNary-John Day?

A: \$100-\$150 million needed from investors. (This has been updated to \$167 million as of July 5, 2004)

#### COMMENTS:

C: Compliment from customer on BPA's 72-hour meter data program. Said it is very helpful to be able to access their meter data.

C: We would like to express our appreciation for TBL coming out to share information with us.